

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mendon Community Schools	County St. Joseph
Fiscal Year End June 30, 2006	Opinion Date October 12, 2006	Date Audit Report Submitted to State December 4, 2006	

We affirm that:

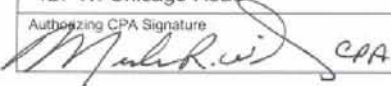
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations	
Other (Describe)	<input checked="" type="checkbox"/>	Govn. Auditing Stds. Report on Internal Controls and Compliance	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State Zip MI 49091
Authorizing CPA Signature  CPA		Printed Name Michael R. Wilson	License Number 1101017570

**MENDON COMMUNITY SCHOOLS**  
**FINANCIAL REPORT**  
**WITH SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2006**

# Mendon Community Schools

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## **Mendon Community Schools**

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**Norman & Paulsen, P.C.**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Mendon Community Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mendon Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Jerrel T. Norman (1941-1982)

Board of Education  
Mendon Community Schools

The administration's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mendon Community Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2006, on our consideration of Mendon Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Norman A. Paulson, P.C.*

October 12, 2006

MENDON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS  
YEAR ENDED June 30, 2006

This section of Mendon Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mendon Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2004 Capital Projects Fund and Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

**Basic Financial Statements**

*District-wide Financial Statements*

*Fund Financial Statements*

*Notes to the Basic Financial Statement*

*(Required Supplemental Information)*

*Budgetary Information for the General Fund and Major Special Revenue Funds*

*Other Supplemental Information*

**Reporting the School District as a whole - District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



## MENDON COMMUNITY SCHOOLS

### ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

#### **Reporting the School District's Most Significant Funds - Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.



MENDON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2006

**The School District as Trustee - Reporting the School District's Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I	June 30,	
	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 6,259,708	\$ 14,593,242
Capital assets - Net of accumulated depreciation	13,999,523	4,777,437
Other noncurrent assets	<u>242,774</u>	<u>253,244</u>
Total assets	20,502,005	19,623,923
Liabilities		
Current liabilities	3,691,826	2,743,388
Long-term liabilities	<u>15,299,955</u>	<u>15,504,077</u>
Total liabilities	18,991,781	18,247,465
Net Assets		
Invested in property and equipment - net of related debt	1,405,503	1,116,276
Restricted for debt service	53,530	1,012
Unrestricted	<u>51,191</u>	<u>259,170</u>
Total net assets	<u>\$ 1,510,224</u>	<u>\$ 1,376,458</u>

MENDON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2006

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$1,510,224 at June 30, 2006. Capital assets, net of related debt totaling \$1,405,503 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$51,191 was unrestricted.

The \$51,191 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2006 and 2005.

TABLE 2

	June 30	
	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for services	\$ 202,955	\$ 215,815
Grants and categoricals	525,140	604,812
General revenue:		
Property taxes	1,474,095	1,359,038
State foundation allowance	4,346,916	4,334,124
Interest and other	<u>432,718</u>	<u>234,651</u>
Total revenue	6,981,824	6,748,440
<b>Function/Program Expenses</b>		
Instruction	3,363,078	3,150,542
Support services	2,125,921	2,153,286
Food services	233,786	203,057
Athletics	281,569	245,494
Interest on long-term debt	656,755	473,083
Depreciation (unallocated)	<u>186,949</u>	<u>189,578</u>
Total expenses	<u>6,848,058</u>	<u>6,415,040</u>
Increase in net assets	<u>\$ 133,766</u>	<u>\$ 333,400</u>

## MENDON COMMUNITY SCHOOLS

### ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

As reported in the statement of activities, the cost of all governmental activities this year was \$6,848,058. Certain activities were partially funded from those who benefited from the programs \$(202,955) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(525,140). We paid for the remaining "public benefit" portion of our governmental activities with \$1,474,095 in taxes, \$4,346,916 is State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$133,766. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

#### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3,241,555, which is a decrease of \$9,202,670 from last year. In the General Fund, our principal operating fund, the fund balance decreased \$211,274 to \$219,423. The General Fund fund balance has been reserved for inventory - \$15,074 and undesignated - \$204,349. In the Capital Projects Fund the fund balance decreased from \$12,010,684 to \$2,966,770. The purpose of the Capital Projects Fund is to continue to spend the fund balance to complete the voter approved purpose of erecting, furnishing and equipping additions to and remodeling, refurnishing and re-equipping the Mendon Middle/High School; remodeling and re-equipping or constructing and equipping a bus garage; partially remodeling, furnishing and equipping the Mendon Elementary School; acquiring and installing education technology; constructing and equipping improvements to the stadium and outdoor athletic facilities; acquiring buses; and developing and improving sites. Our Debt Service Fund reflected a fund balance increase of \$52,518 and the fund balance ended the year at \$53,530. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

MENDON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2006

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were decreased \$107,586, to better reflect state per student foundation funding and adjustments to categorical funding. Actual revenues were within \$12,877 of final budgeted revenues or 0.2 percent.

Budgeted expenditures were increased \$2,280 which is not material. Actual expenditures ended the year under the final budget by \$25,437 or 0.5 percent.

**Capital Asset and Debt Administration**

Capital Assets

At June 30, 2006, the School District had \$18,107,232 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$9,367,535 from last year. Of this amount \$9,390,735 was funded out of the Capital Projects Fund for building improvements. It also reflects the disposal of a bus costing \$41,500. The remainder of \$18,300 was paid out of the General Fund for equipment.

	<u>2006</u>	<u>2005</u>
Land	\$ 102,000	\$ 102,000
Buildings and improvements	6,285,898	6,285,898
Buses and other vehicles	583,792	625,292
Furniture and equipment	1,247,996	991,769
Construction in progress	<u>9,887,546</u>	<u>734,738</u>
Total capital assets	18,107,232	8,739,697
Less accumulated depreciation	<u>4,107,709</u>	<u>3,962,260</u>
Net capital assets	<u>\$ 13,999,523</u>	<u>\$ 4,777,437</u>

MENDON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2006

Debt

At the end of this year, the School District had long-term debt obligations totaling \$15,869,752 outstanding versus \$15,991,598 in the previous year - a change of 0.8 percent. The debt obligations consisted of the following:

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 15,400,179	\$ 15,845,522
Notes payable	148,780	198,455
Deposit - Escrow Agent	(111,457)	(118,888)
School Bond loan	366,062	-
Other	<u>66,188</u>	<u>66,509</u>
	<u>\$ 15,869,752</u>	<u>\$ 15,991,598</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

**Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 148 Kirby Road, Mendon, Michigan, 49072.

MENDON COMMUNITY SCHOOLS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 1,426,798
Investments	3,795,559
Accounts receivable	182,570
Taxes receivable (net)	-
Due from other governmental units	835,067
Prepaid expenses	2,984
Inventories	<u>16,730</u>
Total current assets	6,259,708
Noncurrent Assets:	
Capital assets	18,107,232
Less: accumulated depreciation	<u>4,107,709</u>
Net capital assets	13,999,523
Capitalized bond fees	263,714
Less: accumulated amortization	<u>20,940</u>
Net capitalized bond fees	<u>242,774</u>
Total noncurrent assets	<u>14,242,297</u>
Total assets	20,502,005
<u>LIABILITIES</u>	
Current Liabilities:	
Short-term note payable	1,000,000
Accounts payable	1,567,808
Accrued payroll	243,010
Accrued benefits	156,968
Accrued interest	153,192
Deferred revenue	1,051
Notes payable, due within one year	51,696
Bonds payable, due within one year	<u>518,101</u>
Total current liabilities	3,691,826
Noncurrent Liabilities:	
Other obligations	66,188
School Bond loan payable	366,062
Notes payable	97,084
Bonds payable	<u>14,770,621</u>
Total noncurrent liabilities	<u>15,299,955</u>
Total liabilities	18,991,781
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	1,405,503
Restricted for debt service	53,530
Unrestricted	<u>51,191</u>
Total net assets	<u>\$ 1,510,224</u>

See Notes to Financial Statements

MENDON COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

		<u>Program Revenues</u>		<u>Governmental</u>
				<u>Activities</u>
				Net (Expense)
				Revenue and
				Changes in Net
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Assets</u>
		<u>Services</u>	<u>Grants/</u>	
			<u>Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction	\$ 3,363,078	\$ 41,755	\$ 431,407	\$ (2,889,916)
Support services	2,125,921	-	-	(2,125,921)
Food services	233,786	103,676	93,733	(36,377)
Athletics	281,569	57,524	-	(224,045)
Interest on long-term debt 656,755	-	-	(656,755)	
Depreciation (unallocated)	<u>186,949</u>	<u>-</u>	<u>-</u>	<u>(186,949)</u>
Total Governmental activities	<u>\$ 6,848,058</u>	<u>\$ 202,955</u>	<u>\$ 525,140</u>	(6,119,963)
General revenues:				
Taxes				
Property taxes, levied for general operations				723,006
Property taxes, levied for debt service				751,089
State aid not restricted to specific purposes				4,346,916
Interest and investment earnings				385,291
Other				<u>47,427</u>
Total general revenues				<u>6,253,729</u>
Change in Net Assets				133,766
Net Assets - Beginning of year				<u>1,376,458</u>
Net Assets - End of year				<u>\$ 1,510,224</u>

See Notes to Financial Statements



## MENDON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006

	<u>General</u>	<u>2005 Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 614,317	\$ 735,122	\$ 53,130
Investments	-	3,795,559	-
Accounts receivable	182,570	-	-
Due from other governmental units	835,067	-	-
Due from other funds	26,141	-	400
Prepaid expenditures	2,984	-	-
Inventories	<u>15,074</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,676,153</u>	<u>\$ 4,530,681</u>	<u>\$ 53,530</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Short-term note payable	\$ 1,000,000	\$ -	\$ -
Accrued interest	49,316	-	-
Accounts payable	3,897	1,563,911	-
Accrued payroll	243,010	-	-
Accrued benefits	156,968	-	-
Due to other funds	2,488	-	-
Deferred revenue	<u>1,051</u>	<u>-</u>	<u>-</u>
Total liabilities	1,456,730	1,563,911	-
Fund Balances:			
Reserved:			
Inventories	15,074	-	-
Debt service	-	-	53,530
Capital projects	-	2,966,770	-
Unreserved:			
Undesignated	<u>204,349</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>219,423</u>	<u>2,966,770</u>	<u>53,530</u>
Total liabilities and fund balances	<u>\$ 1,676,153</u>	<u>\$ 4,530,681</u>	<u>\$ 53,530</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 24,229	\$ 1,426,798
-	3,795,559
-	182,570
-	835,067
2,088	28,629
-	2,984
<u>1,656</u>	<u>16,730</u>
<u>\$ 27,973</u>	<u>\$ 6,288,337</u>

\$ -	\$ 1,000,000
-	49,316
-	1,567,808
-	243,010
-	156,968
26,141	28,629
<u>-</u>	<u>1,051</u>
26,141	3,046,782

-	15,074
-	53,530
-	2,966,770
<u>1,832</u>	<u>206,181</u>
<u>1,832</u>	<u>3,241,555</u>

<u>\$ 27,973</u>	<u>\$ 6,288,337</u>
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MENDON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total Fund Balances - Governmental Funds \$ 3,241,555

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not  
financial resources and are not reported in the funds.

The cost of the capital assets is 18,107,232

Accumulated depreciation is (4,107,709)

Total 13,999,523

Bond issuance costs are not included as an asset  
in governmental activities 263,714

Accumulated amortization (20,940)

Total 242,774

Long-term liabilities are not due and payable in the  
current period and are not reported in the funds:

Other obligations (66,188)

School Bond loan payable (366,062)

Notes payable (148,780)

Bonds payable (15,288,722)

Accrued interest payable on long-term liabilities is not  
included as a liability in governmental activities (103,876)

Net assets of governmental activities \$ 1,510,224

See Notes to Financial Statements

## MENDON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 YEAR ENDED June 30, 2006

	<u>General</u>	<u>2005 Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 826,801	\$ 346,821	\$ 757,412
State sources	4,594,602	-	7,752
Federal sources	173,131	-	-
Interdistrict	<u>20,372</u>	<u>-</u>	<u>-</u>
Total revenues	5,614,906	346,821	765,164
Expenditures:			
Instruction	3,264,467	-	-
Supporting services	2,102,095	-	-
Food service	-	-	-
Athletics	-	-	-
Debt service			
Principal repayment	49,675	-	445,343
Interest and fiscal charges	8,463	-	633,365
Capital outlay	-	9,390,735	-
Interdistrict	<u>141,058</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>5,565,758</u>	<u>9,390,735</u>	<u>1,078,708</u>
Excess (deficiency) of revenues over expenditures	49,148	(9,043,914)	(313,544)
Other financing sources (uses):			
Proceeds from school bond loan fund	-	-	366,062
Operating transfers in	-	-	-
Operating transfers out	<u>(260,422)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(260,422)</u>	<u>-</u>	<u>366,062</u>
Net change in fund balances	(211,274)	(9,043,914)	52,518
Fund balances, July 1	<u>430,697</u>	<u>12,010,684</u>	<u>1,012</u>
Fund balances, June 30	<u>\$ 219,423</u>	<u>\$ 2,966,770</u>	<u>\$ 53,530</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 161,200	\$ 2,092,234
9,594	4,611,948
84,139	257,270
<u>-</u>	<u>20,372</u>
254,933	6,981,824
-	3,264,467
-	2,102,095
233,786	233,786
281,569	281,569
-	495,018
-	641,828
-	9,390,735
<u>-</u>	<u>141,058</u>
<u>515,355</u>	<u>16,550,556</u>
(260,422)	(9,568,732)
-	366,062
260,422	260,422
<u>-</u>	<u>(260,422)</u>
<u>260,422</u>	<u>366,062</u>
-	(9,202,670)
<u>1,832</u>	<u>12,444,225</u>
<u>\$ 1,832</u>	<u>\$ 3,241,555</u>

## GOVERNMENTAL FUNDS

Net change in Fund Balances - Total Governmental Funds	\$ (9,202,670)
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Depreciation expense	(186,949)
----------------------	-----------

Capital outlays	<u>9,409,035</u>
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Total	9,222,086
-------	-----------

Amortization of bond costs is recorded as an expenditure in the statement of activities; it is reported in the governmental funds in the year the bonds are issued	(10,470)
--	----------

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	2,974
--	-------

Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds

Proceeds from bond and note issuance is an other financing source in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(366,062)
---	-----------

Repayment of bond principal and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	487,587
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Change in Net Assets of Governmental Activities	<u>\$ 133,766</u>
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MENDON COMMUNITY SCHOOLS  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006

Student  
Activities  
Agency Fund

ASSETS

Cash and cash equivalents

\$ 89,133

LIABILITIES

Due to student groups

\$ 89,133

See Notes to Financial Statements



MENDON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Mendon Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

**District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-Wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**Fund-based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The 2005 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

**Compensated Absences** - The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-Term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** - Comparative data is not included in the district's financial statements.

**Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School district did not have significant expenditure budget variances.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (Continued)**

**Capital Projects Fund Compliance** - The Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The School District's cash and cash equivalents at June 30, 2006, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 1,426,798</u>	<u>\$ 89,133</u>	<u>\$ 1,515,931</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$2,391,211. Of that amount, \$134,210 was covered by federal depository insurance coverage or secured and \$1,008,164 was uninsured and uncollateralized. The balance of \$1,248,837 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - INVESTMENTS**

The School District is authorized by Michigan Public Act 132 of 1986 and School Board policy to invest surplus monies in U.S. bonds and notes, highly rated commercial paper, bankers' acceptances, and mutual funds or investment pools that are composed of authorized investment vehicles.

The School District's investments at June 30, 2006 from the issuance of bonds had a carrying and market value of \$3,795,559. Monies are being held in an escrow account with a local bank for capital fund expenditures. The monies consist of government money market funds and U.S. government and bonds issued by Federal agencies.



MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 4 - INVESTMENTS - (Continued)**

Investments are normally categorized to give an indication of the level of risk assumed by the School District; however, bank investment pools and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2006</u>
Assets not being depreciated - Land	\$ 102,000	\$ -	\$ -	\$ 102,000
Capital assets being depreciated:				
Buildings and building improvements	6,285,898	-	-	6,285,898
Buses and other vehicles	625,292	-	(41,500)	583,792
Furniture and equipment	991,769	256,227	-	1,247,996
Construction in progress	<u>734,738</u>	<u>9,152,808</u>	<u>-</u>	<u>9,887,546</u>
Subtotal	8,637,697	9,409,035	(41,500)	18,005,232
Accumulated depreciation:				
Buildings and building improvements	2,653,389	98,912	-	2,752,301
Buses and other vehicles	409,051	31,615	(41,500)	399,166
Furniture and equipment	<u>899,820</u>	<u>56,422</u>	<u>-</u>	<u>956,242</u>
Subtotal	<u>3,962,260</u>	<u>186,949</u>	<u>(41,500)</u>	<u>4,107,709</u>
Net capital assets being depreciated	<u>4,675,437</u>			<u>13,897,523</u>
Net capital assets	<u>\$ 4,777,437</u>			<u>\$ 13,999,523</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

The School District has active construction projects at year end. These construction projects are being completed from funds received by the \$13,000,000 2005 Building and Site Bond Issue. The District's cumulative expenditures at June 30, 2006 from this bond issue amounted to \$10,499,171.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	Other governmental funds	\$ 26,141
Debt Service	General Fund	400
Other Governmental Funds	General Fund	<u>2,088</u>
Total		<u>\$ 28,629</u>

Interfund Transfers:

	Transfer Out:
	General Fund
Transfer in:	
Other governmental funds	<u>\$ 260,422</u>
Total	<u>\$ 260,422</u>

**NOTE 7 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$1,051.

**NOTE 8 - SHORT-TERM DEBT**

Short-term note payable to bank, due July 15, 2006, interest at 3.475%	<u>\$ 1,000,000</u>
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**NOTE 9 - LONG-TERM DEBT**

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include compensated absences.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE 9 - LONG-TERM DEBT - (Continued)**

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$15,845,522	\$ -	\$ 445,343	\$15,400,179	<u>\$ 525,532</u>
Notes	198,455	-	49,675	148,780	<u>\$ 51,696</u>
Deposits with escrow agent	(118,888)	-	(7,431)	(111,457)	<u>\$ (7,431)</u>
School Bond loan	-	366,062	-	366,062	<u>\$ -</u>
Other Obligations	<u>66,509</u>	<u>14,882</u>	<u>15,203</u>	<u>66,188</u>	<u>\$ -</u>
Totals	<u>\$15,991,598</u>	<u>\$ 380,944</u>	<u>\$ 502,790</u>	<u>\$15,869,752</u>	

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 569,797	\$ 634,539	\$ 1,204,336
2008	592,233	611,777	1,204,010
2009	611,998	596,213	1,208,211
2010	559,005	576,815	1,135,820
2011	559,312	559,409	1,118,721
Thereafter	<u>12,545,157</u>	<u>6,655,629</u>	<u>19,200,786</u>
	<u>\$15,437,502</u>	<u>\$ 9,634,382</u>	<u>\$25,071,884</u>

Governmental Activities:

General obligation bonds consist of:

\$3,035,000 2005 School Building and Site Refunding bonds due in annual installments of \$160,000 to \$200,000 through May 1, 2021; interest from 2.00% to 4.30%	\$ 2,685,000
\$13,000,000 2005 School Building and Site bonds due in annual installments of \$250,000 to \$500,000, through May 1, 2034; interest from 2.50% to 5.00%	12,650,000

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE 9 - LONG-TERM DEBT - (Continued)**

\$110,387 School Improvement Bond (Durant Settlement) the annual principal and interest payments are to be paid directly by the state of Michigan	<u>65,179</u>
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Total bonds payable	<u>\$ 15,400,179</u>
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Notes payable consist of:

Note payable to bank, annual payments of \$11,424 through July 2007, including interest at 3.05%, secured by vehicle	\$ 21,781
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Energy Conservation note payable to bank, annual payments of \$46,715, including interest at 4.50%, final payment due November 30, 2008	<u>126,999</u>
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Total notes payable	<u>\$ 148,780</u>
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State of Michigan School Bond Loan	<u>\$ 366,062</u>
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Other governmental activity long-term obligations include:

Employee compensated absences	<u>\$ 66,188</u>
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**School Bond Loan** - The school bond loan payable represent notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Borrowings by the School District from the School Bond Loan Fund totaled \$366,062 at the year ended June 30, 2006. Interest expense totaling \$10,024 at an interest rate of 4.5%, has been assessed for the year ended June 30, 2006. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 13 mills or such lower millage as prescribed by law. The School District is required to levy the aforementioned mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

MENDON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - Continued  
YEAR ENDED June 30, 2006

**NOTE 10- RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 11- DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$519,394, \$470,154, and \$426,399.

**Post Employment Benefits** - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**REQUIRED SUPPLEMENTAL INFORMATION**

MENDON COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 758,342	\$ 838,174	\$ 826,801	\$ (11,373)
State sources	4,699,183	4,590,801	4,594,602	3,801
Federal sources	142,090	152,889	173,131	20,242
Interdistrict	<u>110,000</u>	<u>20,165</u>	<u>20,372</u>	<u>207</u>
Total revenue	5,709,615	5,602,029	5,614,906	12,877
Expenditures:				
Instruction:				
Basic programs	2,616,348	2,616,797	2,627,912	11,115
Added needs	733,262	641,260	636,555	(4,705)
Support services:				
Pupil	127,032	119,062	118,524	(538)
Instructional staff	143,804	191,347	190,548	(799)
General administration	213,205	211,921	209,734	(2,187)
School administration	310,688	330,986	315,611	(15,375)
Business services	116,531	166,725	164,378	(2,347)
Operations and maintenance	701,932	685,781	689,909	4,128
Transportation	373,448	325,123	308,782	(16,341)
Other services	95,590	107,083	104,609	(2,474)
Debt service	58,143	58,143	58,138	(5)
Interdistrict	<u>98,932</u>	<u>136,967</u>	<u>141,058</u>	<u>4,091</u>
Total expenditures	<u>5,588,915</u>	<u>5,591,195</u>	<u>5,565,758</u>	<u>(25,437)</u>
Excess of revenues over expenditures	120,700	10,834	49,148	38,314
Other financing sources (uses):				
Operating transfers out	<u>(226,522)</u>	<u>(257,308)</u>	<u>(260,422)</u>	<u>(3,114)</u>
Net change in fund balances	(105,822)	(246,474)	(211,274)	35,200
Fund balance, July 1	<u>430,967</u>	<u>430,697</u>	<u>430,697</u>	<u>-</u>
Fund balance, June 30	<u>\$ 325,145</u>	<u>\$ 184,223</u>	<u>\$ 219,423</u>	<u>\$ 35,200</u>



## OTHER SUPPLEMENTAL INFORMATION

MENDON COMMUNITY SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND  
STATEMENT OF REVENUES  
YEAR ENDED JUNE 30, 2006

REVENUES

Revenues from local sources	
Current property taxes	\$ 723,006
Interest on investments	33,883
Tuition and fees	41,755
Miscellaneous revenues	<u>28,157</u>
Total revenues from local sources	826,801
Revenues from state sources	
Foundation	4,339,164
At Risk	80,792
Special education	163,607
Durant Settlement	<u>11,039</u>
Total revenues from state sources	4,594,602
Revenues from federal sources	
Title I	112,636
Title IIA Improving Teacher Quality	28,960
Title V Innovative Programs	308
Technology Literacy	2,101
Drug-Free Schools	3,020
Medicaid outreach	5,142
Homeland security	<u>20,964</u>
Total revenues from federal sources	173,131
Revenues from other districts	
Transportation	17,534
Special education	<u>2,838</u>
Total revenues from other districts	<u>20,372</u>
Total revenues	<u>\$ 5,614,906</u>

MENDON COMMUNITY SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND  
STATEMENT OF OPERATING EXPENDITURES  
YEAR ENDED JUNE 30, 2006

INSTRUCTION

Basic Programs

Elementary

Salaries	\$ 672,198
Employee benefits	324,245
Purchased services	12,922
Supplies and materials	<u>41,097</u>

Total elementary instruction expenditures	1,050,462
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Middle School

Salaries	396,898
Employee benefits	214,234
Supplies and materials	<u>28,354</u>

Total middle school instruction expenditures	639,486
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High School

Salaries	570,057
Employee benefits	278,235
Purchased services	41,837
Supplies and materials	<u>31,288</u>

Total high school instruction expenditures	921,417
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Pre-school

Salaries	11,151
Employee benefits	2,686
Supplies and materials	<u>393</u>

Total pre-school instructional expenditures	14,230
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Summer School

Salaries	1,892
Employee benefits	<u>425</u>

Total summer school expenditures	<u>2,317</u>
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Total basic programs	2,627,912
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MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued  
YEAR ENDED JUNE 30, 2006

INSTRUCTION - Continued

Added Needs

Special education

Salaries	274,191
Employee benefits	126,815
Purchased services	-
Supplies and materials	<u>2,076</u>

Total special education instruction expenditures	403,082
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Compensatory education

Salaries	81,406
Employee benefits	28,069
Purchased services	3,676
Supplies and materials	<u>3,340</u>

Total compensatory education instruction expenditures	116,491
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At Risk education

Salaries	79,069
Employee benefits	37,565
Purchased services	-
Supplies and materials	<u>348</u>

Total at risk education instruction expenditures	<u>116,982</u>
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Total added needs	<u>636,555</u>
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Total instruction expenditures	3,264,467
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MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued  
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES

Pupil Services

Guidance services

Salaries	61,063
Employee benefits	41,876
Purchased services	1,535
Supplies and materials	-
Capital outlay	<u>7,544</u>

Total guidance services 112,018

Student supervision services

Salaries	4,202
Employee benefits	1,225
Supplies and materials	<u>1,079</u>

Total student supervision services 6,506

Total pupil services 118,524

Instructional Staff Services

Library services

Salaries	95,062
Employee benefits	41,701
Purchased services	143
Supplies and materials	<u>8,015</u>

Total library expenditures 144,921

Improvement of Instruction

Salaries	17,627
Employee benefits	3,346
Purchased services	19,512
Supplies and materials	<u>5,142</u>

Total improvement of instruction 45,627

Total instructional staff services expenditures 190,548

General Administrative Services

Board of education

Salaries	1,125
Purchased services	23,609
Other	<u>3,391</u>

Total board of education expenditures 28,125

MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued  
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Executive administration	
Salaries	114,145
Employee benefits	53,115
Purchased services	11,625
Supplies	2,724
Capital outlay	-
Other	-
	<hr/>
Total executive administration expenditures	181,609
	<hr/>
Total general administrative services	209,734
School Administrative Services	
Office of the Principal	
Salaries	177,769
Employee benefits	80,462
Purchased services	51,945
Supplies and material	4,885
Capital outlay	-
Other	550
	<hr/>
Total school administrative expenditures	315,611
Business Services	
Fiscal charges	
Salaries	56,318
Employee benefits	26,274
Purchased services	12,157
Supplies and materials	3,016
Capital outlay	-
Other	66,613
	<hr/>
Total business services expenditures	164,378
Operation and Maintenance	
Operation and maintenance of plant	
Salaries	252,750
Employee benefits	136,880
Purchased services	244,197
Supplies and materials	34,568
Capital outlay	21,514
	<hr/>
Total operation and maintenance expenditures	689,909

MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued  
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Pupil Transportation

Pupil transportation services

Salaries	186,794
Employee benefits	66,526
Purchased services	10,142
Supplies and materials	44,395
Other	<u>925</u>

Total pupil transportation services 308,782

OTHER SERVICES

Community Services

Drivers Training

Salaries	4,169
Benefits	973
Supplies and materials	<u>496</u>

Total community services 5,638

Technology services

Salaries	49,349
Employee benefits	22,017
Purchased services	17,182
Supplies and materials	<u>10,423</u>

Total technology services 98,971

Total other services 104,609

Total supporting services expenditures 2,102,095

DEBT SERVICE

Principal repayment	49,675
Interest and fiscal charges	<u>8,463</u>

Total debt service 58,138

OTHER DISTRICTS

CTE Program	98,932
Special education	14,626
Other	<u>27,500</u>

Total other districts 141,058

Total operating expenditures \$ 5,565,758

MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 20,445	\$ 3,784	\$ 24,229
Accounts receivable	-	-	-
Due from other governmental units	-	-	-
Due from other funds	2,088	-	2,088
Inventory	1,656	-	1,656
Prepaid expenditures	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 24,189</u>	<u>\$ 3,784</u>	<u>\$ 27,973</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Accrued benefits	-	-	-
Due to other funds	<u>24,189</u>	<u>1,952</u>	<u>26,141</u>
Total liabilities	24,189	1,952	26,141
Fund balances:			
Unreserved:			
Undesignated	<u>-</u>	<u>1,832</u>	<u>1,832</u>
Total liabilities and fund balances	<u>\$ 24,189</u>	<u>\$ 3,784</u>	<u>\$ 27,973</u>



MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 103,676	\$ 57,524	\$ 161,200
State sources	9,594	-	9,594
Federal sources	<u>84,139</u>	<u>-</u>	<u>84,139</u>
Total revenues	197,409	57,524	254,933
Expenditures:			
Food services	233,786	-	233,786
Athletics	<u>-</u>	<u>281,569</u>	<u>281,569</u>
Total expenditures	<u>233,786</u>	<u>281,569</u>	<u>515,355</u>
Excess (deficiency) of revenues over expenditures	(36,377)	(224,045)	(260,422)
Other financing sources:			
Operating transfers in	<u>36,377</u>	<u>224,045</u>	<u>260,422</u>
Net change in fund balances	-	-	-
Fund balances, July 1	<u>-</u>	<u>1,832</u>	<u>1,832</u>
Fund balances, June 30	<u>\$ -</u>	<u>\$ 1,832</u>	<u>\$ 1,832</u>

MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
FOOD SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 104,687	\$ 103,676	\$ (1,011)
State sources	8,754	9,594	840
Federal sources	<u>84,139</u>	<u>84,139</u>	<u>-</u>
Total revenues	197,580	197,409	(171)
Expenditures:			
Salaries	75,377	77,492	2,115
Employee benefits	20,398	20,906	508
Purchased services	25,566	25,565	(1)
Supplies, materials and other expenditures	<u>109,824</u>	<u>109,823</u>	<u>(1)</u>
Total expenditures	<u>231,165</u>	<u>233,786</u>	<u>2,621</u>
Excess (deficiency) of revenues over expenditures	(33,585)	(36,377)	(2,792)
Other financing sources:			
Operating transfers in	<u>33,585</u>	<u>36,377</u>	<u>2,792</u>
Net change in fund balances	-	-	-
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
ATHLETIC FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
Revenues:			
Local sources	\$ 57,439	\$ 57,524	\$ 85
Expenditures:			
Salaries	116,537	115,804	(733)
Employee benefits	27,671	27,516	(155)
Purchased services	99,984	99,203	(781)
Supplies, materials and other expenditures	<u>37,722</u>	<u>39,046</u>	<u>1,324</u>
Total expenditures	<u>281,914</u>	<u>281,569</u>	<u>(345)</u>
Excess (deficiency) of revenues over expenditures	(224,475)	(224,045)	430
Other financing sources:			
Operating transfers in	<u>223,723</u>	<u>224,045</u>	<u>322</u>
Net change in fund balances	(752)	-	752
Fund balance, July 1	<u>1,832</u>	<u>1,832</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,080</u>	<u>\$ 1,832</u>	<u>\$ 752</u>

MENDON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
STUDENT ACTIVITIES AGENCY FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2006

	Balances <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2006</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>88,587</u>	\$ <u>209,756</u>	\$ <u>209,210</u>	\$ <u>89,133</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>88,587</u>	\$ <u>209,756</u>	\$ <u>209,210</u>	\$ <u>89,133</u>

MENDON COMMUNITY SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
STATEMENT OF BONDED INDEBTEDNESS  
JUNE 30, 2006

2005 SCHOOL BUILDING AND SITE BONDS	\$ 13,000,000
Less:	
Bonds paid in prior years	100,000
Bonds due and paid May 1, 2006	<u>250,000</u>
BALANCE OUTSTANDING - June 30, 2006	<u>\$ 12,650,000</u>

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	2.500	\$ 516,156	\$ 300,000	\$ 816,156
2008	2.750	508,656	350,000	858,656
2009	2.750	499,031	375,000	874,031
2010	3.000	488,719	375,000	863,719
2011	3.000	477,469	375,000	852,469
2012	3.150	466,219	375,000	841,219
2013	3.250	454,406	375,000	829,406
2014	3.500	442,219	375,000	817,219
2015	3.500	429,094	425,000	854,094
2016	3.625	414,219	450,000	864,219
2017	3.750	397,906	475,000	872,906
2018	4.000	380,094	475,000	855,094
2019	4.000	361,094	475,000	836,094
2020	4.000	342,094	475,000	817,094
2021	4.125	323,094	475,000	798,094
2022	4.200	303,500	500,000	803,500
2023	4.250	282,500	500,000	782,500
2024	4.375	261,250	500,000	761,250
2025	4.375	239,375	500,000	739,375
2026	4.625	217,500	500,000	717,500
2027	4.625	194,375	500,000	694,375
2028	4.625	171,250	500,000	671,250
2029	4.625	148,125	500,000	648,125
2030	5.000	125,000	500,000	625,000
2031	5.000	100,000	500,000	600,000
2032	5.000	75,000	500,000	575,000
2033	5.000	50,000	500,000	550,000
2034	5.000	<u>25,000</u>	<u>500,000</u>	<u>525,000</u>
Total		<u>\$ 8,693,345</u>	<u>\$12,650,000</u>	<u>\$21,343,345</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

MENDON COMMUNITY SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
STATEMENT OF BONDED INDEBTEDNESS  
JUNE 30, 2006

1998 SCHOOL IMPROVEMENT BONDS	\$ 110,387
Less:	
Bonds paid in prior years	39,865
Bonds due and paid May 15, 2006	<u>5,343</u>
BALANCE OUTSTANDING - June 30, 2006	<u><u>\$ 65,179</u></u>

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.76	\$ 11,046	\$ 25,532	\$ 36,578
2008	4.76	1,888	5,864	7,752
2009	4.76	1,609	6,143	7,752
2010	4.76	1,316	6,436	7,752
2011	4.76	1,010	6,742	7,752
2012	4.76	689	7,063	7,752
2013	4.76	<u>352</u>	<u>7,399</u>	<u>7,751</u>
Total		<u>\$ 17,910</u>	<u>\$ 65,179</u>	<u>\$ 83,089</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

MENDON COMMUNITY SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
STATEMENT OF BONDED INDEBTEDNESS  
JUNE 30, 2006

2005 REFUNDING BONDS	\$ 3,035,000
Less:	
Bonds paid in prior years	160,000
Bonds due and paid May 2006	<u>190,000</u>
BALANCE OUTSTANDING - June 30, 2006	<u>\$ 2,685,000</u>

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	2.00	\$ 93,462	\$ 200,000	\$ 293,462
2008	2.50	89,462	190,000	279,462
2009	2.75	84,713	195,000	279,713
2010	3.00	79,350	195,000	274,350
2011	3.25	73,500	185,000	258,500
2012	3.50	67,488	185,000	252,488
2013	3.50	61,013	180,000	241,013
2014	3.63	54,712	180,000	234,712
2015	3.75	48,188	175,000	223,188
2016	4.00	41,625	175,000	216,625
2017	4.00	34,625	170,000	204,625
2018	4.10	27,825	170,000	197,825
2019	4.30	20,855	165,000	185,855
2020	4.30	13,760	160,000	173,760
2021	4.30	<u>6,880</u>	<u>160,000</u>	<u>166,880</u>
Total		<u>\$ 797,458</u>	<u>\$2,685,000</u>	<u>\$3,482,458</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principle is payable annually on May 1.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education  
Mendon Community Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the Mendon Community Schools basic financial statements and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Mendon Community Schools internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Mendon Community Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Jerrel T. Norman (1941-1982)

*Norman & Paulsen, P.C.*

October 12, 2006